

CHIEF AUDITOR'S REPORT
April 2009

Attachment A

CATEGORY	TOPIC	SUMMARY
1. Internal Audit Activities	Audit Plan	<ul style="list-style-type: none"> Audit Services is on track to achieve the Board approved FY 2008-09 audit plan.
	Reports Issued	<ul style="list-style-type: none"> These key reports were issued since the March Finance Committee meeting: <ul style="list-style-type: none"> Accounting and Financial Reporting for IRC 457 – Improving financial reporting and management of program. Caremark – General compliance noted for claim processing. Contract improvements noted for future PBM negotiations. Fixed Income Insurance Policy – General compliance noted. Need for documentation and disaster recovery plan. 8 Contracting Agency Reviews – Compliance issues noted.
	Audits In Progress	<ul style="list-style-type: none"> The following key audits are in progress to assess potential risks: <ul style="list-style-type: none"> 47 Public Agency Audits Asset Allocation, Cash Manager, FISMA, Enterprise Risk Assessment Kaiser, Blue Cross, PORAC, Medco Asset Management, Data Warehouse
	Projects In Progress	<ul style="list-style-type: none"> Audit Services is participating in the following projects: <ul style="list-style-type: none"> PSR internal control & information security assessment, PSR/ETM IPOC, Accounting Action Plan Steering Committee, HMO Financial Ratios
	Planned Audits	<ul style="list-style-type: none"> The following audits will be started in the 4th quarter: <ul style="list-style-type: none"> Strategic Planning, Trade Desk Operations, Medicare Part D, Fraud Risk Assessment
	Key Issues	<ul style="list-style-type: none"> An assessment of key issues identifying trends or concerns: <ul style="list-style-type: none"> Health Insurance Portability and Accountability Act Financial Statement Auditor Management Letter Comments Account Receivables

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2. Independent External Financial Statement Auditor	Audit Status	<ul style="list-style-type: none"> Preliminary planning of the audit for the period ending June 30, 2009 is in process. Fiscal Services is preparing for the audit by coordinating activities throughout the enterprise, including revising the Management's Discussion and Analysis section of the financial reports. Auditor will begin on-site fieldwork in June 2009 performing account analysis.
	Services	<ul style="list-style-type: none"> The auditor is currently performing the following services: <ul style="list-style-type: none"> Alternative Investment assessment of internal controls (co-source) Inflation-Linked Asset Class (Commodities, Timber, Infrastructure) assessment of internal controls for managing, monitoring, and reporting
	Independence	<ul style="list-style-type: none"> Complies with independence and objectivity standards.
	Contract Management	<ul style="list-style-type: none"> Compliance is maintained with contract. This is the auditor's third year of a five year contract. Current contract expires in 2012. All work completed within budget.
3. Independent Real Estate Auditor(s)	Audit Status	<ul style="list-style-type: none"> 1 final and 3 draft audit reports issued since the March Finance Committee meeting. – Investment Office Real Estate unit is resolving contract compliance issues.
	Independence	<ul style="list-style-type: none"> All real estate auditors comply with independence and objectivity standards.
4. External Developments	Contract Management	<ul style="list-style-type: none"> Compliance is maintained with contract. All audits completed within budget.
	Financial Reporting	<ul style="list-style-type: none"> The Governmental Accounting Standards Board (GASB) issued GASB Statement No. 54, <i>Fund Balance Reporting and Governmental Fund Type Definitions</i>. Statement 54 is intended to improve the usefulness of information provided to financial report users about fund balance by providing clearer, more structured fund balance classifications, and by clarifying the definitions of existing governmental fund types. Fund balance—the difference between assets and liabilities in the governmental fund financial statements—is among the most widely and frequently used information in state and local government financial reports.

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4. External Developments (continued)	Financial Reporting	<ul style="list-style-type: none"> The Governmental Accounting Standards Board (GASB) issued GASB Statement No. 55, <i>The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments</i>. The Statement incorporates the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the GASB's authoritative literature. It is intended to make it easier for preparers of state and local government financial statements to identify and apply the "GAAP hierarchy," which consists of sources of accounting principles used in the preparation of financial statements so that they are presented in conformity with GAAP and the framework for selecting those principles.
	Financial Reporting	<ul style="list-style-type: none"> GASB Issues Technical Bulletin No. 2008-1, <i>Determining the Annual Required Contribution (ARC) Adjustment for Postemployment Benefits</i> - The Technical Bulletin suggest using the actual ARC, if known, when the actuarial valuation separately identifies the actual amount included in the ARC related to amortization of past employer contribution deficiencies or excess contributions to a pension or other postemployment benefit (OPEB) plan. Technical Bulletin provisions are effective for financial statements with periods ending after December 15, 2008.
	Financial Reporting	<ul style="list-style-type: none"> The GASB Technical Plan, January 2009, includes a project on postemployment benefit accounting and financial reporting. This project focuses on many areas related to actuarial reporting, but it also includes the issue of how to measure fair value and whether or not to use fair value in actuarial calculations. Project scheduled for 1st quarter of 2009.
	Financial Reporting	<ul style="list-style-type: none"> The GASB Technical Plan includes a research project on Fair Value Measurement. The objective of this research project is to review the further development of the definition of fair value, the methods used to measure fair value, and potential disclosures about fair value measurements including, alternative investments, such as private placements and hedge funds, real estate investment trusts, state land trusts, and partnership interests are to be addressed.